

March 30, 2006

APR03'06 PM 3:13 BOARD

Ms. Mary Rupp, Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Dear Members of the Board:

Thank you for the opportunity to comment on the Advance Notice of Proposed Rulemaking with respect to Supervisory Audit Committees. As requested, we will identify and respond to each question; however, we believe that the underlying premise of the proposal may be inconsistent with the nature of credit unions.

The Sarbanes-Oxley Act, as well as the Federal Deposit Insurance Corporation Improvements Act, is cited in the NCUA discussion related to Internal Control Assessment and Attestation. It seems these statutes are being used as a platform for instituting new rules for credit union corporate governance with respect to financial accountability. However, the protocols set forth in these statutes are designed for public corporations and stock owned financial institutions where investors have a financial stake. Modeling credit union Supervisory Committee Audit responsibilities after the requirements of Sarbanes-Oxley or the FDICIA fosters parallels in structure and purpose that do not exist, and in fact serve to undermine credit union distinctions.

In practice however, we agree that developing certain financial reporting and accountability standards serves the interests of members. Below are our responses to the specific questions.

A. Internal Control Assessment and Attestation

Q. 1. *Should part 715 require, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting above a certain minimum asset size threshold?*

R. We are not aware of significant, systemic abuse within the credit union community of misrepresentation of financial condition or weakness in internal control oversight, and none is cited in the background information provided. As we understand the question, it is "to determine the extent to which such reports are necessary." We do not see evidence that they are necessary; however, as standard business practice they may well be desirable. NCUA guidance to credit unions would seem sufficient to encourage such practices.

Q.2. *What minimum asset size threshold would be appropriate for requiring ... an "attestation on internal controls" ... given the additional burden on management and its external auditor?*

R. As discussed in the NCUA narrative, the threshold for such a requirement should surely not be less than is required for other types of financial institutions, should it be determined that other financial institutions are the standard for determining need.

Q.3. *Should the minimum asset size threshold ... be the same for natural person credit unions and corporate credit unions?*

R. Yes, there is no substantial difference for the need for accountability between types of credit unions.

*Q. 4. Should management's assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting...?*

R. Should NCUA determine that it is prudent to require "Attestation on internal controls" by management, we do not agree with the implied assumption that these attestations must be reviewed by external auditors. We believe most credit unions of the size indicated have functional, professional and effective internal audit departments who are accountable to the Supervisory Committee. The determination of financial reporting adequacy based on management's attestations could be made under this existing structure. Under these conditions, all financial reporting would be appropriate for review.

*Q. 5. Should the same auditor be permitted to perform both the financial statement audit and the "attestation..."*

R. The credit union should be allowed to engage one or more, or use internal resources to perform the "attestation on internal controls." If the purpose of this reporting is to foster an informed membership, isn't the credit union just as likely to get an objective review through its Supervisory Committee that is charged with protecting the members' interests than through the use of retained outside sources? Supervisory Committees, together with the support of internal audit staff would have greater knowledge and understanding of internal controls than an external resource.

*Q. 6. If an "attestation on internal controls" were required of credit unions, should it be required annually or less frequently?*

R. Credit unions are not subject to market fluctuations and external investor behavior, as such there is relatively little potential for volatility in its financial condition year over year. NCUA has moved to bi-annual exam cycles in recognition of well-managed credit union's relative stability. Accordingly, any requirement to provide "attestations" should be no more frequent than NCUA's own standards for review.

*Q.7. If an "attestation on internal controls" were required of credit unions, when should the requirement become effective?*

R. No sooner than two fiscal years after the publication of final rules in the Federal Register.

**B. Standards Governing Internal Control Assessments and Attestations**

*Q.8. If credit unions were required to obtain an "attestation on internal controls," should those attestations adhere to a standard that applies to public companies or to one that applies to non-public companies?*

R. Since credit unions are non-public companies, owned by their members, the latter choice would be more appropriate.

*Q. 9. Should NCUA mandate ... the standard all credit union management must follow when establishing, maintaining and assessing the effectiveness of the internal control structure and procedures, or should each credit union have the option to choose its own standard?*

R. If there are standards identified, NCUA should apply them consistently which will serve to improve member access to comparative information.

*Q. 10. Should Supervisory Committee members of credit unions above a certain minimum assets size threshold be required to have a minimum level of experience or expertise...?*

R. Regardless of size, the Supervisory Committee is first and foremost a voluntary function of member representation. To establish minimum requirements could compromise the ability of a credit union Board to recruit and retain member volunteers. The larger the credit union, the more likely that the Supervisory Committee is provided an internal audit department, external auditors and other

resources to assist in their analysis, deliberation and determinations under their areas of responsibility. There is also a question of potential liability that an "expert" serving in a volunteer capacity could incur; thus limiting even further the ability of credit unions to recruit volunteers.

Q. 11. *Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have access to outside counsel?*

R. Supervisory Committee members should be permitted, to have access to outside council as they deem necessary to conduct the activities within their charge. But such authority and related expenditures should be subject to Board review, approval and reporting.

Q.12. *Should Supervisory Committee members of credit unions ... be prohibited from being associated with any large customer of the credit union...?*

R. In the case of other types of financial institutions, "customer" implies "user" of that financial institution. No member of the credit union should be disqualified from serving on the Supervisory Committee based on their member relationship with the credit union. However, it is conceivable that a "customer" of a credit union could also be defined as a vendor or third-party provider. In this instance where a commercial relationship exists, conflicts should be avoided by prohibiting participation.

Q. 13. *If any of the qualifications ... were required of Supervisory Committee members, would credit unions have difficulty in recruiting and retaining competent individuals to serve in sufficient numbers?*

R. Yes. Competent, interested and committed volunteers at any level are a precious commodity. Add the responsibility to represent a large constituency with a financial interest in the organization and recruitment becomes even more difficult. The key characteristics required are placing the members' best interests first. It is incumbent upon credit union directors to find and develop qualified officials and volunteers at all levels of the organization.

D. Independence of State-Licenses, Compensated Auditors

Q. 14. *Should a state-licensed, compensated auditor who performs a financial statement audit and/or "internal control attestation" be required to meet just the AICPA's "independence" standards, or should they be required to also meet SEC's "independence" requirements and interpretations?*

R. The AICPA "independence" standards should be adequate. Credit unions are not publicly traded institutions and the SEC standards do not apply.

E. Audit Options, Reports and Engagements

Q.15. *Is there value in retaining the "balance sheet audit" as an audit option for credit unions with less than \$500 million in assets?*

R. Yes. There are still many small credit unions for which this would be adequate. The threshold should be lowered to conform with the definition of "small credit union."

Q.16. *Is there value in retaining the "Supervisory Committee Guide audit" as an option of credit unions with less than \$500 million in assets?*

R. Yes, although the threshold should be lowered to conform with a definition of "small credit union."

*Q.17. Should credit unions that obtain a financial statement audit and/or an "attestation on internal controls" be required to forward a copy of the auditor's report to NCUA? If so, how soon after the audit period end?*

R. No. Any audits would be available to NCUA upon request or in conjunction with an examination. The purpose of this requirement, if implemented, is to assure financial transparency for members; not for regulatory purposes outside of its relevance to the examination process. It would also cause an unnecessary and nonproductive increase in paperwork that is contrary to the intent of the Paperwork Reduction Act.

*Q.18. Should credit unions be required to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditors in connection with services provided to the credit union? If so, how soon after the credit union receives it?*

R. No. See answer to Q. 17.

*Q.19. If credit unions were required to forward external auditors' reports to NCUA, should the auditor be required to review those reports with the Supervisory Committee before forwarding them to NCUA?*

R. Absolutely.

*Q.20. Existing part 715 requires a credit union's engagement letter to prescribe a target date of 120 days after the audit period-end for delivery of the audit report. Should this period be extended or shortened? What sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter?*

R. The existing target date is reasonable and attainable. No sanctions should be placed on credit unions, although it should be taken into consideration during NCUA examination of management practices.

*Q.21. Should credit unions be required to notify NCUA in writing when they enter into an engagement with an auditor, and/or when an engagement ceases by reason of the auditor's dismissal or resignation?*

R. No, these are management, Board and Supervisory Committee issues.

*Q.22. Should credit union Supervisory Committees be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union?*

R. Yes, the Supervisory Committee should be prohibited from entering into engagement agreements with external audit firms that limit auditor liability. Credit unions have to be able to hold the auditors accountable for their work.

Thank you again for the opportunity to comment.

Sincerely,



William B. Eckhardt  
President

cc: Alaska USA Board of Directors  
Alaska USA Supervisory Committee